

Eicher Motors

BSE SENSEX
59,463

S&P CNX
17,698

CMP: INR3,214
TP: INR3,600(+12%)
Buy

Focus on balancing profit growth and profitability

Export business is just starting | One new engine platform in the works

EIM hosted the investing community at Royal Enfield Global Headquarters & India Tech Centre. The entire senior management team for Motorcycles and the CV business presented their strategy and focus areas ([link to the webcasts and presentation](#)). Royal Enfield (RE) is rebalancing and focusing on balancing profit (growth) and profitability (margin). Its plan to achieve this balance pivots around: a) expanding the addressable market in India (through new products and by targeting new customers), b) expanding its international business, and c) continued ramp-up in non-Motorcycle revenue.

- **Balancing profit growth and profitability:** RE is reorienting to become a truly growth-focused company by balancing profit and profitability. It is focused on profit and maximizing growth (rather than on margin). It is seeing opportunities to grow in India and in the international business, and its non-Motorcycle revenue. It has created a management team of global professionals at RE to lead this growth phase.
- **India demand - industry recovery and new products to drive volumes:** As per the management, the opportunity in Premium Motorcycle stands at 3.2m units (FY19 peak volumes). In this segment, RE has 36% market share in 1QFY23 (v/s 24%/~5% in FY17/FY12). It enjoys a substantial share of customers' voice (32%) and search (~28%), but its market share in domestic Motorcycles stands ~6%. This gap implies desirability and the opportunity lies in making RE products more accessible through various means (new products, easy financing, rentals, subscriptions, etc.). The recently launched Hunter is aimed at new customers, including the first-time rider. Similarly, RE will launch products over the next 1.5-2 years to entice its existing customers to upgrade and replace.
- **The story is just starting in its international business:** The international business is at a similar juncture to where India was in FY11. As of FY22, the global volumes for mid-sized Motorcycles stood ~0.82m (REs exports were ~74k). Like in India, its approach to the international market is of experiential marketing to create a pull for its products. It already commands an 8-9% market share in mid-sized Motorcycles in the targeted markets of Europe, North America, LatAm, and APAC. All its products, since the 650cc Twins, are developed keeping the global markets in mind. It already has three CKD assembly units in Columbia, Argentina, and Thailand. It is considering one in Brazil.
- **Product pipeline – more to come:** It currently has three engine platforms, excluding the UCE engine used in the Bullet, with one engine platform currently under development. On its J-series platform (350cc), it may launch two additional variants beyond its existing products. On its Twins platform (650cc), it currently has two models and has scope to deliver many more models or variants. A new engine platform is under development, with which it can offer four-to-five models or variants.



Bloomberg	EIM IN
Equity Shares (m)	273
M.Cap.(INRb)/(USDb)	878.7 / 11
52-Week Range (INR)	3261 / 2110
1, 6, 12 Rel. Per (%)	-2/22/14
12M Avg Val (INR M)	2247
Free float (%)	50.8

Financials & Valuations (INR b)

	FY22	FY23E	FY24E
Sales	103.0	147.3	174.3
EBITDA	21.7	36.8	45.5
Adj. PAT	16.8	29.9	41.2
Adj EPS (INR)	61.3	109.3	150.6
EPS Gr (%)	21.1	78.3	37.7
BV/Sh (INR)	461	545	671

Ratios

RoE (%)	13.8	21.4	24.2
RoCE (%)	13.8	21.4	24.2
Payout (%)	34.2	22.9	16.6

Valuations

P/E (x)	51.4	28.9	20.9
P/BV (x)	6.8	5.8	4.7
Div. Yield (%)	0.7	0.8	0.8
FCF Yield (%)	1.0	4.1	3.5

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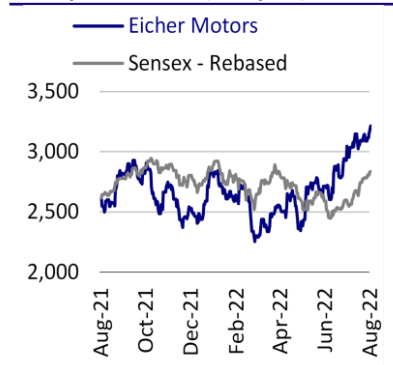
Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	49.2	49.2	49.2
DII	10.2	10.0	9.6
FII	29.5	29.2	28.8
Others	11.1	11.5	12.4

FII Includes depository receipts

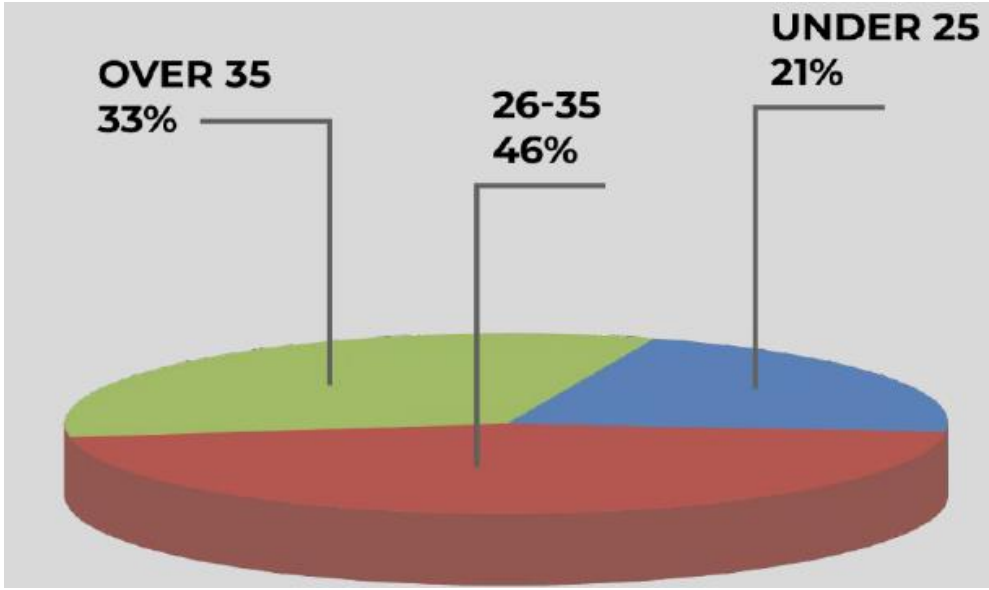
Stock performance (one-year)

- **Non-vehicle revenue a good driver of growth and margin:** Adjacencies like accessories, merchandise and apparel, and spares are large growth opportunities, and also helps to strengthen the parent brand. Unlike the past, the management is identifying accessories and apparel opportunities at the design stage of the product itself. Some of its initiatives like Studio Store and Make it Yours (MY) has helped drive traction in non-Motorcycle revenue, which has reached ~15% of RE's revenue. While spares are clocking a monthly run-rate of INR1b, it has seen an over 2x growth in accessories per bike since moving to MY. Its service market share now stands at 53%.
- **Work underway way in EVs, but launch unlikely in the next four-to-five years:** EIM has been working on its EV program for the last three-to-four years to understand the technology and its customer's needs. It is not looking at an EV launch in the next four-to-five years to achieve its energy density-cost balance, although any regulatory change may be a joker in the pack. The management believes EVs will allow it do things it couldn't do with ICE and allow it to enter into markets which it couldn't enter hitherto.
- **Valuation and view:** While the export opportunity is very large and exciting, RE needs to resurrect its fortunes in the domestic market. We believe Hunter will drive growth by ushering in new customers. However, a recovery in its core 350cc portfolio is critical for a sustained growth. An improvement in supply-side issues, product launches, and a ramp-up in exports will drive the next phase of growth for RE. This, coupled with stable commodity prices, will support margin and drive earnings growth. The stock trades at 29.4x/21.3x FY23E/FY24E consolidated EPS. We maintain our Buy rating with a TP of INR3,600 (Sep'24E SoTP).

Exhibit 1: Re-Balance was the theme of Eicher's Investors day

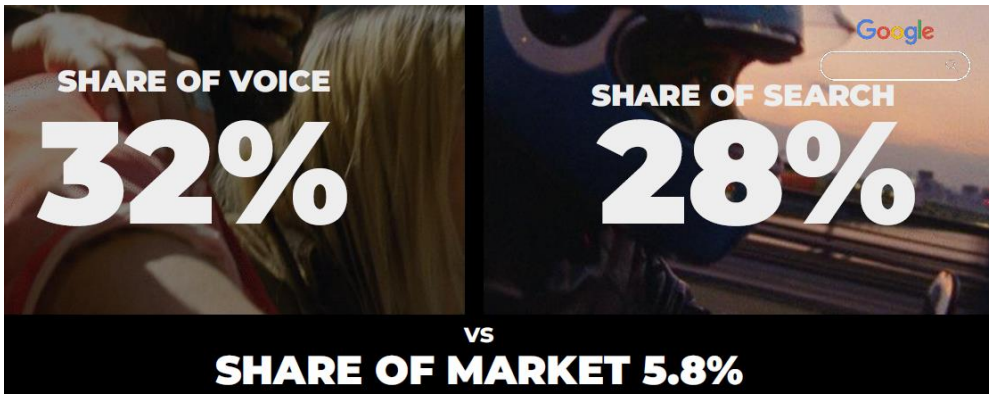
Source: Company, MOFSL

Exhibit 2: REs customer base in India – 2/3rd customers are <35 years of age



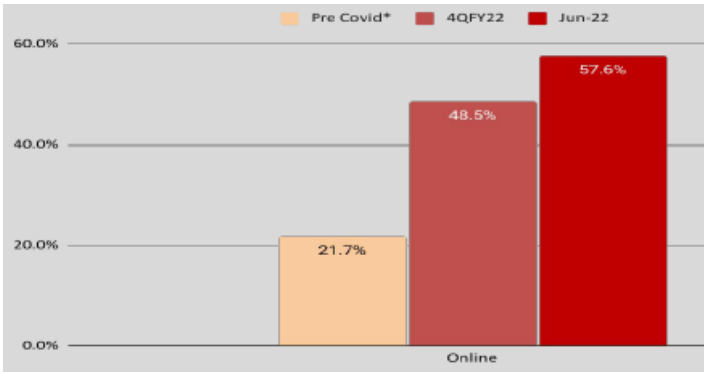
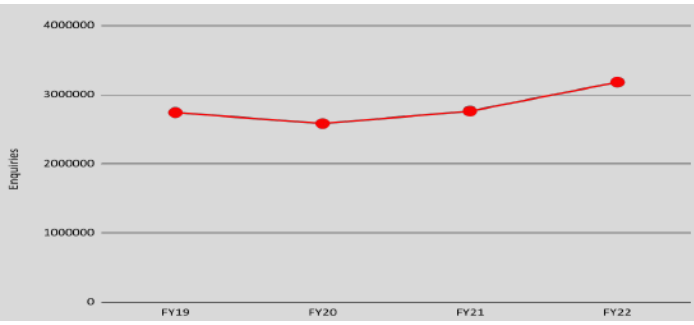
Source: Company, MOFSL

Exhibit 3: REs enjoys strong desirability as reflected in gap between share of voice/search and market share

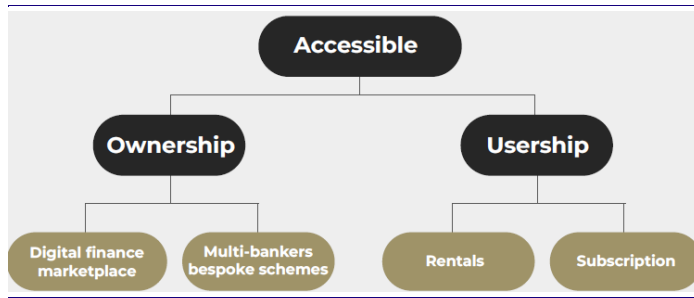
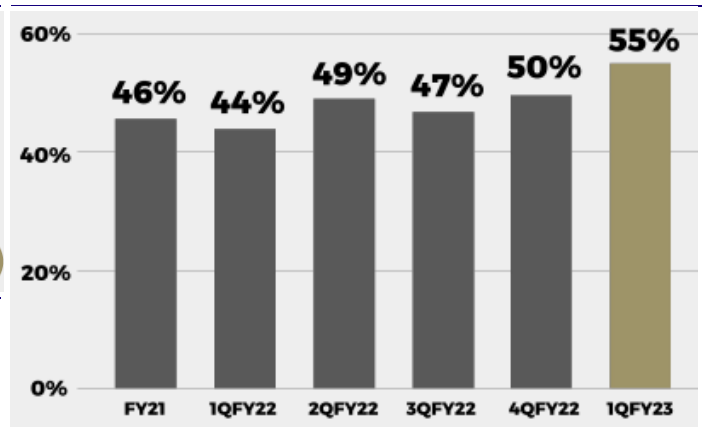


Source: Company, MOFSL

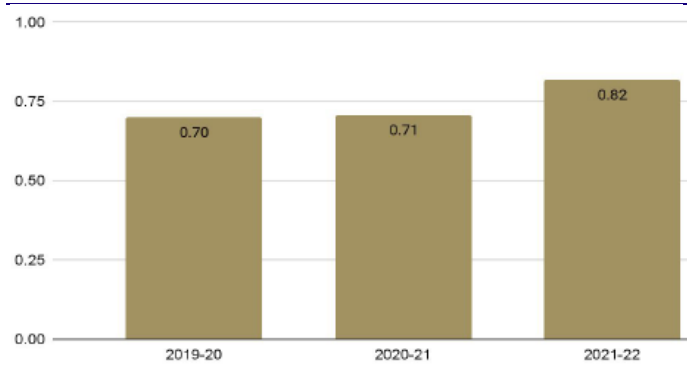
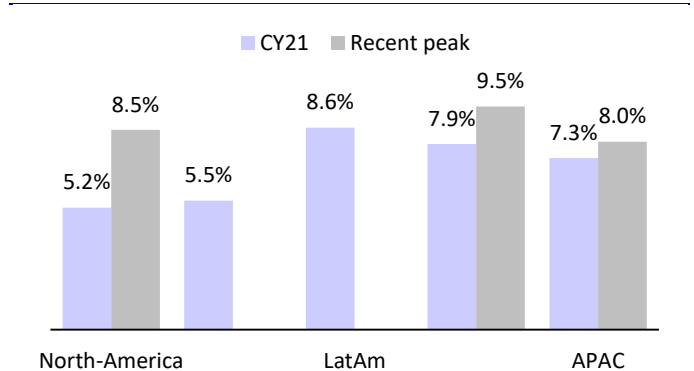
Exhibit 4: Inquiries for RE has been going up, with online inquiries going-up substantially



Source: Company

Exhibit 5: Bringing accessibility To aspiration through various means**Exhibit 6: Finance penetrations have been steadily going-up, with Jul-22 at 60%**

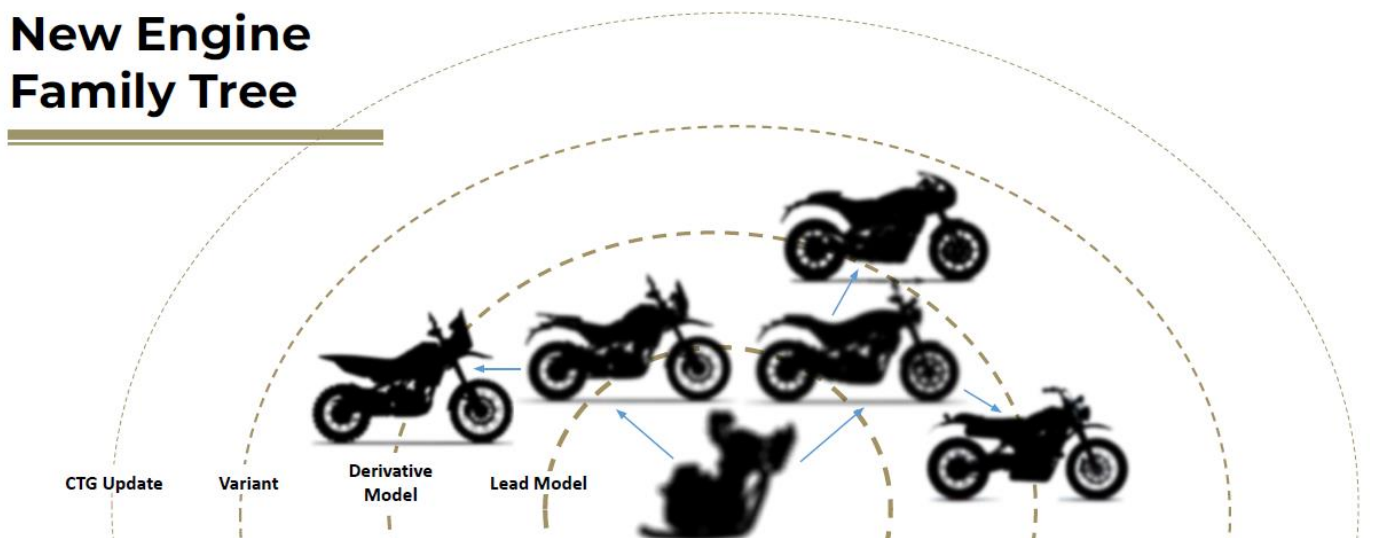
Source: Company

Exhibit 7: International mid-sized motorcycle market was ~0.82m in FY22**Exhibit 8: RE has scaled-up to 8-9% market share in its key markets**

Note: APAC market share of 7.3% is for CYTD; Source: Company

Exhibit 9: RE has a new engine platform under works which can potentially have 4-5 models on it

New Engine Family Tree



Source: Company, MOFSL

Exhibit 10: J-Series (350cc) platform to have two more variants

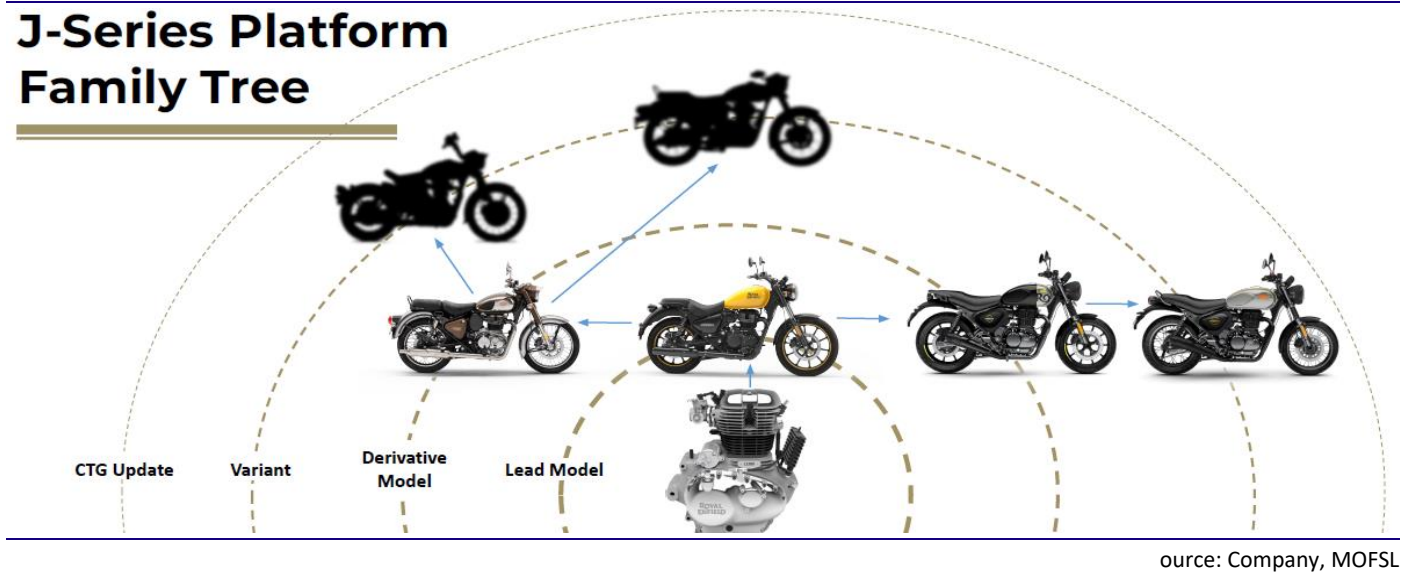


Exhibit 11: Twins (650cc) platform has scope to deliver many more models and variants

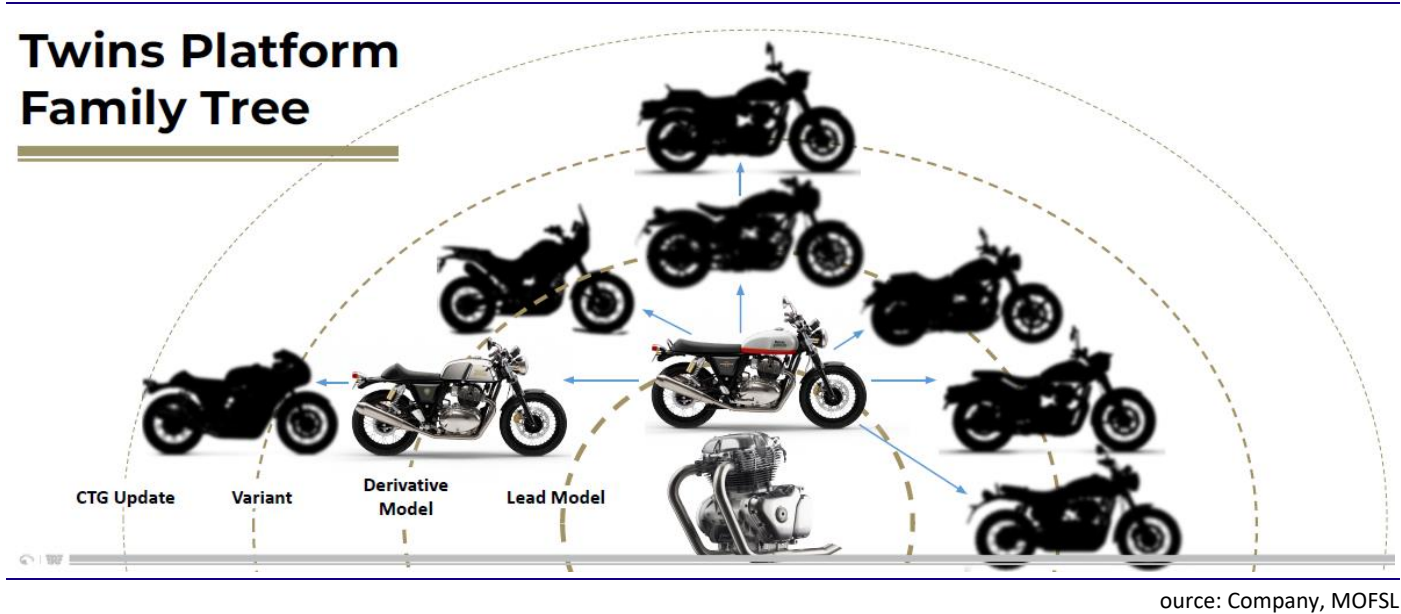


Exhibit 12: LS410 (410cc) platform currently has just two models

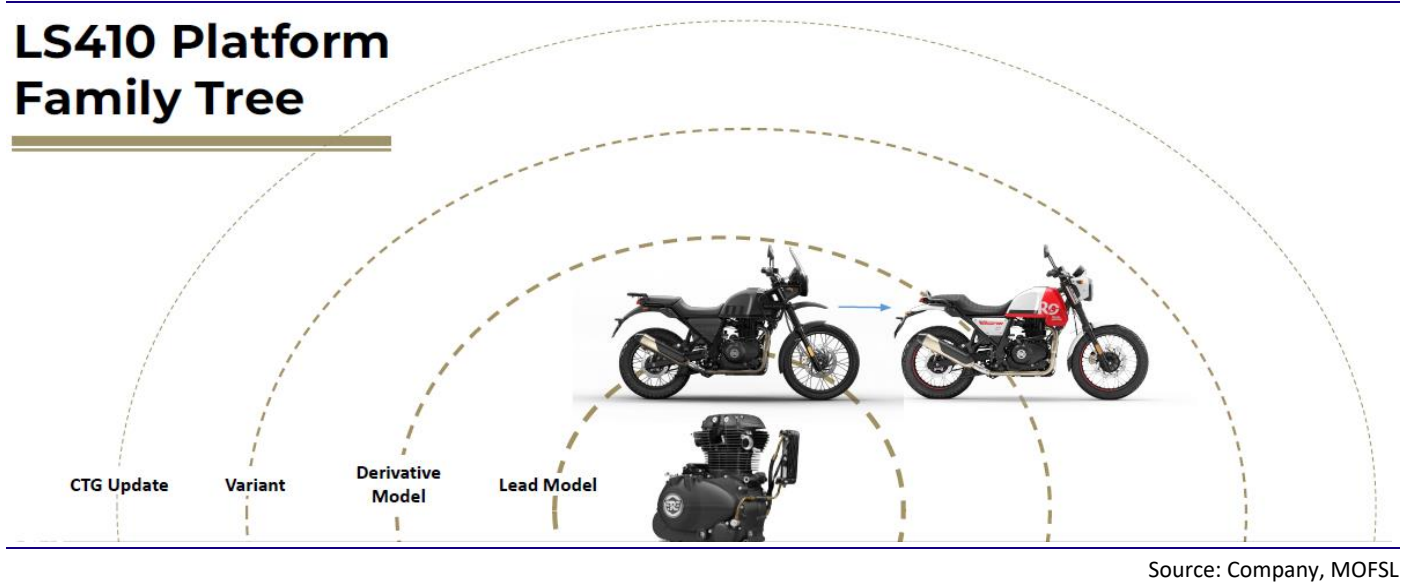


Exhibit 13: REs quality progress has been very good, driven by new platforms

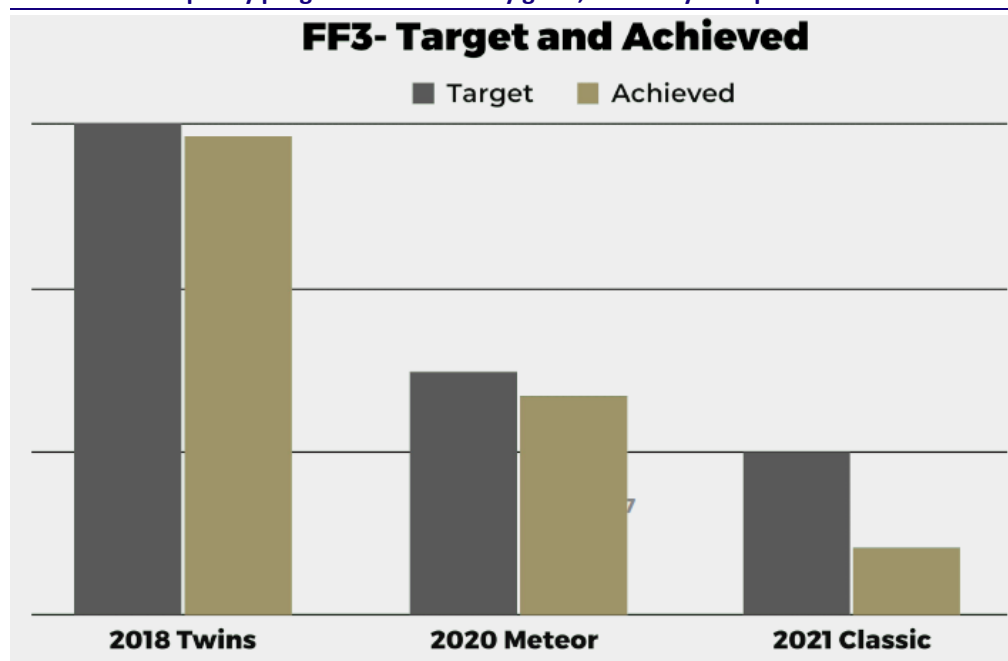
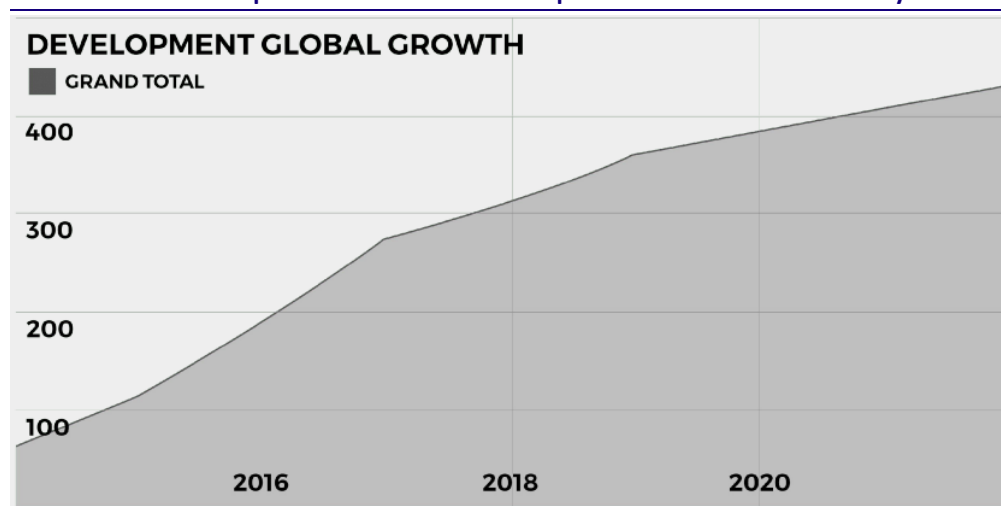


Exhibit 14: REs development team has seen multiple fold increase over last few years



Valuation and view

- **The worst seems to be behind, recovery underway:** Demand for RE is crawling back to pre-COVID levels and is expected to improve going forward on the back of launches and ongoing expansion in the international market. After witnessing severe headwinds over the last 24 months, we expect volumes to grow hereafter. The company continues to expand its addressable market through: a) distribution expansion (via smaller format stores), b) price laddering (by offering multiple 'trim' levels), c) new product launches (Classic 350 and additional products in the pipeline), and d) mass personalization through the 'Make it Yours' (MIY) platform.
- **Easing chip supplies, product launches to drive strong volume growth:** With a healthy response for the new Classic 350, all recent product launches (Himalayan, 650cc twins, Meteor, and Classic 350) of RE have seen good success. The launches will expand its product portfolio, narrow the gap in quality

vis-à-vis the 650cc twins, and substantially expand its addressable market globally. This coupled with easing supply side from 2HFY23, we expect a ~22% volume CAGR (FY22-25E), which will drive a 560bp margin recovery to 26.5% by FY25E and ~42% standalone PAT CAGR.

- **Export ramp-up now visible, to fully play out over the next few years:** RE is focused on creating an affordable Leisure Biking segment in the 250-650cc range and in the USD3-7k price bracket. Globally, the size of the 250-650cc segment is ~1m annually, dominated by the Sports/Street Biking segment. Exports from India are over 0.5m annually for the Premium segment (excluding RE, over 150cc). However, RE's exports were flat YoY ~39k units in FY21 (flat YoY in FY20 v/s 19k units in FY19). The same is expected to grow with launches such as the Meteor and given its international product quality. EIM has recently started executing its export strategy, based on experiential marketing, as it has done in India. It is opening exclusive stores in markets such as LatAm, Indonesia, London, Paris, Madrid, and ASEAN. It has expanded its exclusive store count to 165 in FY22. This has started to show results, with FY22 export revenues growing 105% or 16.8% of standalone revenues (~9.7% in FY21).
- **Consolidated EPS to grow at 46% CAGR over FY22-24E; maintain Buy:** Improving supply side, new product launches and ramp-up in exports will drive the next phase of growth for RE. This coupled with stable commodity prices will support margins and drive earnings growth. The stock trades at 29.4x/21.3x FY23E/FY24E consolidated EPS. Maintain Buy rating with a TP of INR3,600/share (Sep'24E SoTP).

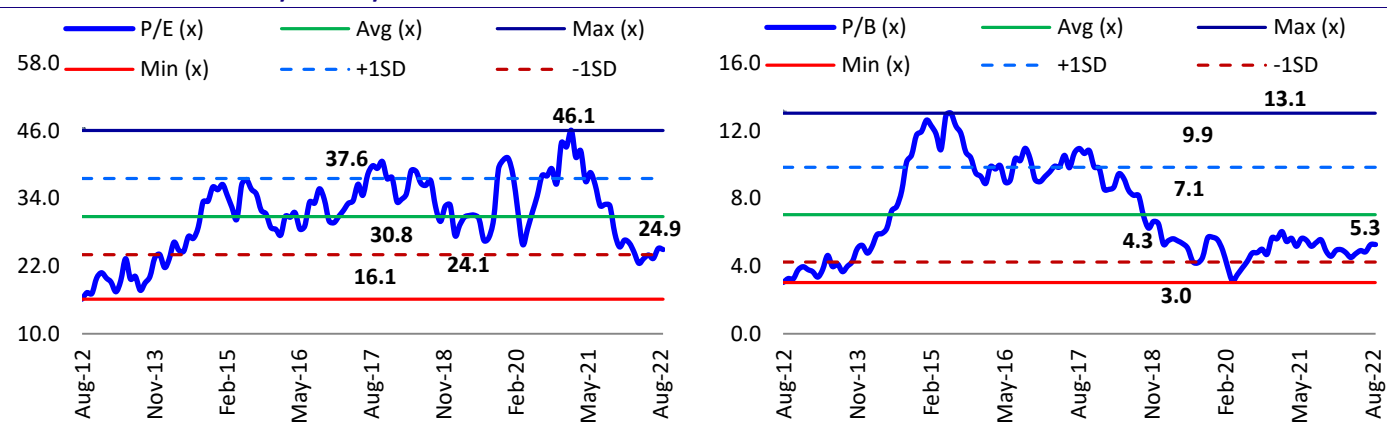
Exhibit 15: SOTP Valuations – INR3,600 (Sep-24 based)

SOTP Valuations

INR Mn		FY23E	FY24E	FY25E
Royal Enfield				
PAT		27,446	37,170	45,048
Equity Value	PE @ 20x	548,926	750,841	909,967
VECV (@ 54.4% Economic interest)				
EBITDA		7,265	9,727	13,021
EV	@ 12x EV/EBITDA	87,185	118,675	157,555
Net Debt		-7,517	-12,255	-19,442
Equity Value		94,702	130,930	176,998
Total Equity Value		643,628	881,771	1,086,965
Target Price (INR/Sh)		2,354	3,225	3,976
Upside (%)		(25)	2	26

Source: Company, MOFSL

Exhibit 16: Valuations – P/E and P/B band



Source: MOFSL

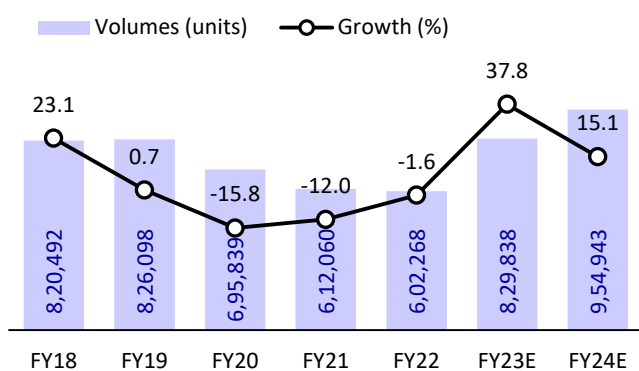
Source: MOFSL

Exhibit 17: Snapshot of Revenue Model

000 units	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
ROYAL ENFIELD (S/A)							
Total 2W (units)	826	696	612	602	830	955	1,094
Growth (%)	0.7	-15.8	-12.0	-1.6	37.8	15.1	14.5
Net realn (INR'000/unit)	118	129	140	166	172	177	180
Growth (%)	8.3	10.1	8.2	18.4	3.9	2.7	1.7
RE Revenues (INR b)	98	91	86	101	145	172	200
Growth (%)	9.3	-7.3	-5.1	17.4	43.2	18.3	16.6
VECV							
Dom - LMD	48	36	27	36	53	63	72
Growth (%)	11.4	-26.2	-23.3	33.0	44.7	18.9	15.0
% of CV Vols	67.5	75.1	68.3	65.4	67.5	67.4	67.2
Dom - HCV	13	7	8	11	16	19	22
Growth (%)	7.3	-45.2	6.0	41.2	47.0	20.0	15.0
% of CV Vols	18.5	15.3	19.2	19.5	20.5	20.6	20.5
Total Dom.	62	43	35	47	69	82	94
Growth (%)	10.5	-30.3	-18.3	34.8	45.2	19.2	15.0
% of CV Vols	86.0	90.4	87.5	84.9	88.0	88.1	87.7
Exports	10	5	5	8	9	11	13
Growth (%)	11.2	-54.4	10.0	67.7	11.3	18.7	18.7
% of CV Vols	14.0	9.6	12.5	15.1	12.0	11.9	12.3
Total CV vols	72	48	40	56	78	93	108
Growth (%)	10.6	-33.6	-15.6	38.9	40.1	19.1	15.4
MDEP Vols ('000 Ex captive)	34	31	22	23	24	26	0
Net realn (INR'000/unit)	1,590	1,750	2,102	2,230	2,251	2,172	2,237
Growth (%)	4	10	20	6	1	-3	3
VECV Revenues (INR b)	116	85	87	127	179	206	244
Growth (%)	15.4	-26.5	1.8	46.7	40.8	14.8	18.8
Net Consol sales (INR b)	98	92	87	103	147	174	203
Growth (%)	9.3	-6.6	-4.7	18.1	43.1	18.3	16.6

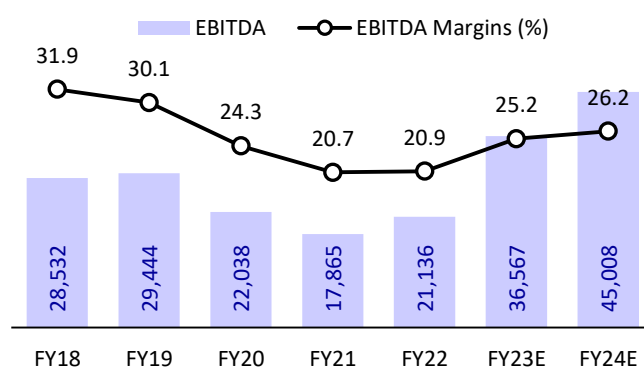
Story in charts

Exhibit 18: Volume and growth trend for RE



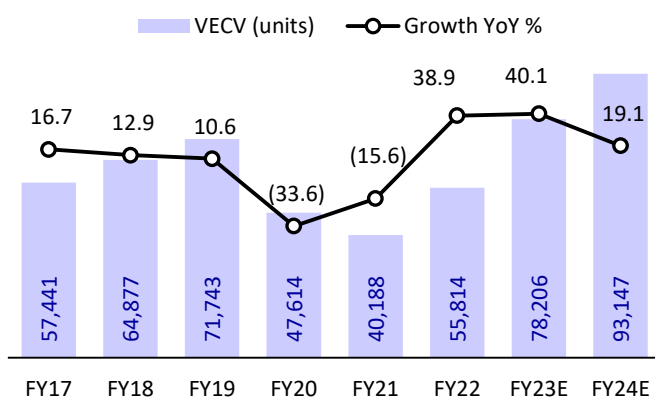
Source: Company, MOFSL

Exhibit 19: EBITDA and EBITDA margin trend for RE



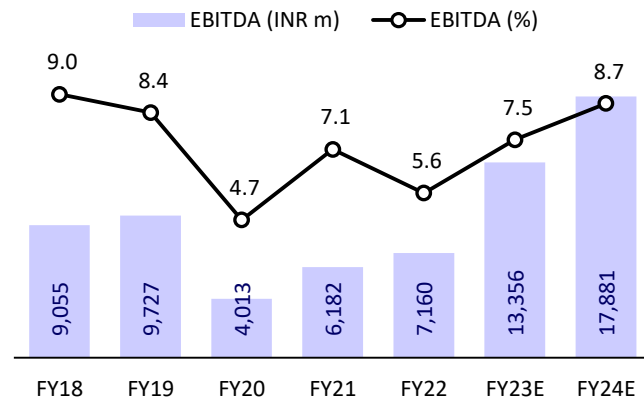
Source: Company, MOFSL

Exhibit 20: Volume growth trajectory for VECV



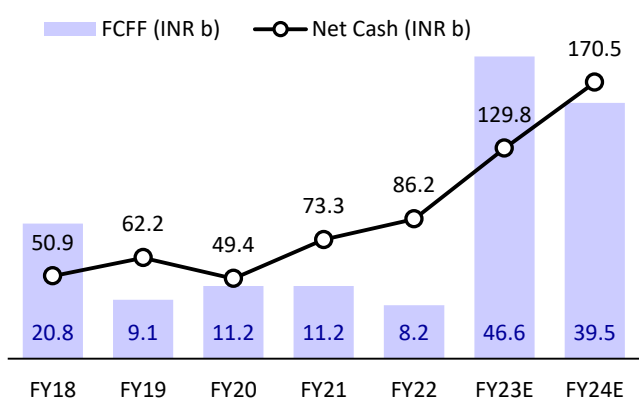
Source: Company, MOFSL

Exhibit 21: EBITDA and EBITDA margin for VECV



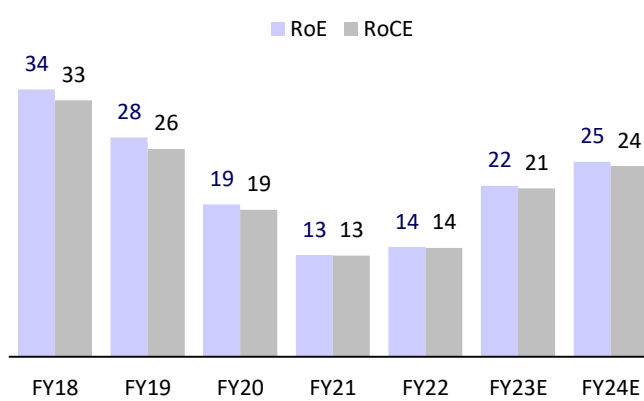
Source: Company, MOFSL

Exhibit 22: Strong FCF generation and liquidity (pro-rata)



Source: Company, MOFSL

Exhibit 23: Return ratios to improve



Source: Company, MOFSL

Financials and valuations

Income Statement (Consolidated)					(INR Million)		
Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Op. Income	97,971	91,536	87,204	102,978	147,324	174,288	203,283
Change (%)	6.3	-6.6	-4.7	18.1	43.1	18.3	16.6
EBITDA	29,031	21,804	18,313	21,723	36,826	45,513	54,032
EBITDA Margin (%)	29.9	24.0	21.1	21.4	25.3	26.5	27.0
Depreciation	3,003	3,815	4,507	4,519	4,824	5,305	5,732
EBIT	26,028	17,988	13,805	17,203	32,002	40,208	48,300
Interest cost	73	189	165	188	130	130	130
Other Income	4,434	5,433	4,532	4,408	4,160	8,400	10,620
PBT	30,389	23,232	18,173	21,424	36,032	48,478	58,790
Tax	10,770	5,275	4,527	5,259	9,149	12,062	14,618
Effective Rate (%)	35.4	22.7	24.9	24.5	25.4	24.9	24.9
PAT	19,619	17,957	13,646	16,165	26,883	36,416	44,171
Change (%)	2.0	-8.5	-24.0	18.5	66.3	35.5	21.3
Less: Minority Interest	-2,584	-317	-311	-602	-3,008	-4,757	-7,214
Adj. PAT	22,203	18,274	13,829	16,766	29,891	41,173	51,385
Change (%)	5.6	-17.7	-24.3	21.2	78.3	37.7	24.8

Balance Sheet (Consolidated)					(INR Million)		
Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Sources of Funds							
Share Capital	273	273	273	273	273	273	273
Reserves	88,914	99,536	114,108	125,807	148,862	183,201	227,751
Net Worth	89,187	99,809	114,381	126,080	149,136	183,474	228,024
Deferred Tax	2,739	2,522	2,215	2,201	3,664	5,634	8,020
Loans	1,868	1,444	1,574	588	60	60	60
Capital Employed	93,794	103,775	118,170	128,869	152,860	189,167	236,104
Application of Funds							
Gross Fixed Assets	27,673	36,194	40,904	44,234	53,167	57,667	62,167
Less: Depreciation	8,927	12,419	16,571	19,991	24,816	30,120	35,852
Net Fixed Assets	18,746	23,775	24,333	24,243	28,352	27,547	26,315
Capital WIP	4,497	3,122	3,143	5,048	250	250	250
- of which Goodwill	223	223	0	0	0	0	0
Investments	49,225	57,488	39,021	77,206	79,461	83,029	88,440
Curr.Assets, L & Adv.	41,400	40,113	79,089	55,514	76,305	115,567	164,464
Inventory	6,334	5,724	8,746	11,324	7,148	8,458	9,864
Sundry Debtors	903	868	1,582	3,020	1,191	1,410	1,644
Cash & Bank Balances	29,653	29,506	58,304	27,225	61,017	97,476	143,367
Loans & Advances	13	1	4,592	6,768	0	0	0
Others	4,497	4,014	5,866	7,177	6,949	8,223	9,590
Current Liab. & Prov.	20,075	20,722	27,416	33,141	31,509	37,226	43,365
Sundry Creditors	12,341	10,277	15,358	17,881	17,869	21,145	24,660
Other Liabilities	6,928	9,472	10,930	13,362	11,913	14,097	16,440
Provisions	807	974	1,128	1,898	1,726	1,984	2,265
Net Current Assets	21,325	19,391	51,673	22,373	44,796	78,341	121,100
Application of Funds	93,794	103,775	118,170	128,869	152,860	189,167	236,104

E: MOFSL Estimates

Financials and valuations

Ratios (Consolidated)

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)							
EPS	81.4	66.9	50.7	61.3	109.3	150.6	187.9
EPS Growth (%)	5.6	-17.8	-24.3	21.1	78.3	37.7	24.8
Book Value per Share	327	366	419	461	545	671	834
DPS	12.5	12.5	17.0	21.0	25.0	25.0	25.0
Payout (Incl. Div. Tax) %	17.9	21.7	33.6	34.2	22.9	16.6	13.3
Valuation (x)							
P/E	38.8	47.1	62.3	51.4	28.9	20.9	16.8
EV/EBITDA	23.0	33.5	37.1	31.0	16.7	12.6	9.7
EV/Sales	5.0	5.9	5.9	4.6	3.0	2.4	1.9
Price to Book Value	9.6	8.6	7.5	6.8	5.8	4.7	3.8
Dividend Yield (%)	0.4	0.4	0.5	0.7	0.8	0.8	0.8
Profitability Ratios (%)							
RoE	39.5	48.0	63.4	52.4	29.4	21.3	17.1
RoCE	23.4	34.2	37.9	31.7	17.1	12.9	9.9
RoIC	5.1	6.0	6.0	4.6	3.1	2.5	2.0
Turnover Ratios							
Debtors (Days)	3	3	7	11	3	3	3
Inventory (Days)	24	23	37	40	18	18	18
Creditors (Days)	46	41	64	63	44	44	44
Working Capital (Days)	-19	-15	-21	-13	-24	-24	-24
Asset Turnover (x)	1.0	0.9	0.7	0.8	1.0	0.9	0.8
Leverage Ratio							
Net Debt/Equity (x)	-0.6	-0.7	-0.7	-0.7	-0.8	-0.8	-0.9

Cash Flow Statement (Consolidated)

(INR Million)

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Profit before Tax	32,798	23,549	17,984	22,025	39,039	53,235	66,004
Depreciation	3,003	3,815	4,507	4,519	4,824	5,305	5,732
Direct Taxes Paid	-9,085	-6,283	-4,566	-5,136	-7,685	-10,093	-12,232
(Inc)/Dec in Working Capital	-4,557	862	2,578	-1,503	5,994	1,747	1,874
Interest/Div. Received	-1,304	-2,207	-3,103	-2,440	-3,960	-8,100	-10,320
Other Items	-5,126	-2,795	-265	-2,195	1,344	-7,103	-9,232
CF from Oper. Activity	15,730	16,941	17,136	15,270	39,557	34,992	41,826
(Inc)/Dec in FA+CWIP	-7,874	-5,445	-5,375	-6,387	-4,136	-4,500	-4,500
Free Cash Flow	7,855	11,497	11,760	8,883	35,421	30,492	37,326
(Pur)/Sale of Invest.	1,301	-9,639	-11,104	-3,446	1,704	4,532	4,910
CF from Inv. Activity	-6,574	-15,084	-16,479	-9,833	-2,431	32	410
Issue of Shares	361	289	384	65	0	0	0
Inc/(Dec) in Debt	247	-709	130	-1,046	-529	0	0
Interest Paid	-50	-75	-91	-142	-130	-130	-130
Dividends Paid	-3,482	-8,087	0	-4,647	-6,835	-6,835	-6,835
CF from Fin. Activity	-2,923	-8,583	-148	-5,934	-7,494	-6,965	-6,965
Inc/(Dec) in Cash	6,233	-6,725	509	-496	29,632	28,059	35,270
Add: Beginning Balance	925	7,158	432	941	445	30,078	58,137
Closing Balance	7,158	432	941	445	30,078	58,137	93,407

E: MOFSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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